

**FINAL REPORT ON
IMPLEMENTATION OF THE FEDERAL
FINANCIAL MANAGEMENT
IMPROVEMENT ACT**

OIG-00-124 September 28, 2000



Office of Inspector General

Department of the Treasury



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 28, 2000

MEMORANDUM FOR LISA ROSS, ACTING ASSISTANT SECRETARY
FOR MANAGEMENT AND CHIEF FINANCIAL
OFFICER

FROM: Dennis S. Schindel *Dennis S. Schindel*
Assistant Inspector General for Audit

SUBJECT: Final Report on Implementation of the
Federal Financial Management Improvement Act

This memorandum transmits our Final Report on Implementation of the Federal Financial Management Improvement Act (FFMIA). The overall objective of this audit was to determine whether the Department of the Treasury (Department) has made adequate progress in remedying FFMIA non-conformances identified in the Chief Financial Officers audits for the year ending September 30, 1999. We included one finding and one recommendation to assist the Department in improving the implementation of FFMIA. The Department needs to provide more active oversight of bureaus as they develop their FFMIA remediation plans. The plans need to be achievable, based on available resources, and implementation should be monitored by the Department to ensure that planned/reported progress is being made. We found that the plans had improved, however, weaknesses remain in the Customs and United States Secret Service plans.

In its response, the Department agreed with our recommendation, and will develop plans to address the recommendation. The Department's comments have been incorporated into the report and are included in their entirety as Appendix I to the report.

We appreciate the courtesies and cooperation provided to our auditors during the audit. If you have any questions or require further assistance, you may contact me at (202) 927-5400, or a member of your staff may contact Clifford Jennings, Director, Office of Information Technology Audits at (202) 927-5771.

Attachment

Overview

As part of the Office of Inspector General's annual financial statement audits of the Department of the Treasury (Department) for Fiscal Years (FY) 1997, 1998 and 1999, we reported that the Department is not in substantial compliance with the financial management systems requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).¹ The objective of this review was to determine the adequacy of remedial actions necessary to correct previously reported FFMIA related financial management system deficiencies.

We evaluated the FFMIA remediation plans for each bureau and evaluated the plan's capabilities to resolve non-conformances based upon the identified resources, remedies and intermediate target dates. We evaluated the plans from the U.S. Customs Service (Customs), Financial Management Service (FMS), and the United States Secret Service (USSS). These bureaus were identified as non-conforming as of September 30, 1999, and had non-conformances in existence for a period of 1 year or longer. The Departmental Offices and the Office of the Comptroller of the Currency were first identified as non-conforming as of September 30, 1999. Their remediation plans were not due until June 30, 2000, and we did not review the plans of these two bureaus. The review of the Internal Revenue Service remediation plan was performed by the Treasury Inspector General for Tax Administration in a separate audit.

We performed our initial review of these plans, which were developed as a result of the 1998 CFO audits. We found that the remediation plans submitted by the bureaus resulting from the 1998 CFO audits were not complete and required significant revisions. The plans lacked specific detail, including sources of funding or staffing resources, and as a result were not viable.

The bureaus submitted revised remediation plans on June 30, 2000. Our review was subsequently expanded to include these revised remediation plans resulting from the 1999 CFO audits. We evaluated those plans to determine if improvements were evidenced in their development. We found that the plans had improved, however, weaknesses remained in the Customs and USSS plans. The Customs plan was weak because the plan

¹ 31 U.S.C. 3512.

continued to depend upon congressional action for funding, and the plan did not provide a detailed timeline for implementation of a new general ledger system. The USSS plan indicated that the implementation of a corrective action was dependent upon a reorganization with an unspecified implementation date. Further, the Executive Office of Asset Forfeiture (EOAF) did not submit a remediation plan of its own, as requested by the Deputy Chief Financial Officer (DCFO).

We also evaluated the Chief Financial Officer's (CFO) oversight of FFMIA remediation within the Department and its bureaus. Departmental oversight in the development and implementation of FFMIA remediation plans was limited. We noted that the Department had not established an effective program to ensure the review of remediation plans and to provide feedback to the bureaus. Also, the Department had not requested sufficient supporting detail needed to properly evaluate the plans, or to monitor the adequacy of progress during implementation. As a result, an increased likelihood of continued material weaknesses exists.

Objective, Scope, and Methodology

The overall objective of this review was to determine whether the Department has made significant progress in effecting improvements to correct previously reported FFMIA related financial management system deficiencies, as required by FFMIA. We evaluated the remediation plans submitted to the DCFO's office by Customs, FMS, and USSS. EOAF did not submit a remediation plan. Our audit included verifying interim target actions and dates specified in the remediation plans submitted by the bureaus. The audit scope was limited to the evaluation of Section 4 non-conformances listed in the Department's FY 1999 Financial Statement Audit relating to conditions in existence for 1 year or longer.

Fieldwork was performed from January 2000 to March 2000. The audit was performed in accordance with *Government Auditing Standards*.

Recommendation and Management's Response:

The CFO should improve the oversight of FFMIA remediation plan development and implementation by ensuring that: 1) the bureau plans are viable; 2) written feedback on plan adequacy is provided; and 3) plan implementation is monitored to ensure that identified deficiencies are resolved.

Treasury's response to our draft report concurred with our finding and recommendation. Their response is summarized and evaluated in the body of this report and included in detail as Appendix 1, Management Response.

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Background

Agencies are required by 31 U.S.C. 3512, the Federal Financial Management Improvement Act (FFMIA), to implement and maintain financial management systems that substantially comply with Federal financial management systems requirements, applicable Federal accounting standards and the United States Government Standard General Ledger. As part of the Chief Financial Officer (CFO) Act audits, non-conformances with these requirements are identified, and reported in each CFO audit report. FFMIA requires that an agency correct financial management system deficiencies within three years from the time the agency agrees with the auditor's findings of noncompliance. To help accomplish this objective, the head of the agency is required to develop a remediation plan that describes the resources, remedies and intermediate target dates necessary to bring the agency's financial management system into substantial compliance.

In addition, FFMIA tasks the head of the agency with the designation of an official of the agency who shall be responsible for bringing the agency's financial management system into compliance. The Department of the Treasury (Department) has tasked the affected bureaus to prepare bureau remediation plans. The Department then compiles those plans, which are then submitted to the Office of Management and Budget.

Objective, Scope, and Methodology

The overall objective of this review was to determine whether the Department has made significant progress in effecting improvements to correct previously reported FFMIA related financial management system deficiencies. We evaluated the remediation plans submitted to the Deputy Chief Financial Officer (DCFO) Office by the U.S. Customs Service (Customs), Financial Management Service (FMS), and the United States Secret Service (USSS). The Executive Office of Asset Forfeiture (EOAF) did not submit a remediation plan. Our audit included the verification of interim target actions and dates specified in the remediation plans submitted by the bureaus.

Fieldwork was performed from January 2000 to March 2000. The audit was performed in accordance with *Government Auditing Standards*.

Overview

Since the enactment of FFMIA, the Department has taken steps to help assure conformance with the FFMIA for agency financial systems. The Department has used the results of annual financial statement audits to assess the bureau's levels of conformance with FFMIA. In addition, the DCFO provided information to the bureaus in June 1998, outlining the bureaus' and the CFO's responsibilities under the FFMIA. In a June 1998 memorandum, the Department requested that bureaus having reported non-compliances in the FY 1997 CFO audit cycle submit remediation plans designed to bring their agency's financial management systems into substantial compliance by March 2001. These plans were due to the Department by August 15, 1998.

The bureaus responded by submitting their remediation plans as requested, with one exception. We evaluated each of the remediation plans submitted by the bureaus as a result of the FY 1997 through FY 1999 CFO audits. However, the plans themselves did not provide, in sufficient detail, the information requested and did not satisfy FFMIA requirements. We found that the plans lacked sufficient detail relating to the resources, remedies and intermediate target dates necessary to implement plans and to subsequently monitor results. Further, the EOAF failed to prepare and submit a remediation plan addressing three material FFMIA related weaknesses noted in their FY 1998 financial report.

As a result of the FY 1997 CFO audit, two deficiencies were identified with the Mint's financial systems. The Mint developed a remediation plan and effectively implemented corrective actions by November 1998. Therefore, Mint was not included within the scope of the review. Similarly, FMS has achieved measurable success with its planned remediations. A total of nine deficiencies were identified during audits conducted for the period FY 1997 through FY 1999. A total of eight deficiencies have been corrected, leaving only one non-compliance still outstanding as of September 30, 1999.

While the Department has taken certain steps to require and assist the bureaus in completing and submitting remediation plans, the Department has not been successful in eliminating financial system deficiencies. As a result, the Department must improve its oversight of FFMIA implementation.

Finding

Improved Oversight of FFMIA Remediation is Needed

The Department's implementation of FFMIA to correct and resolve deficiencies with its financial management systems needs improvement. We noted that bureaus either failed to provide remediation plans to the Department or the plans submitted lacked requisite information necessary to effectively implement and monitor plan progress. All bureaus, with the exception of EOAF, submitted revised plans as of June 30, 2000. We noted improvement in the plans, however certain conditions continue to exist. As a result, the Department may continue to have deficient financial management systems.

Details

Remediation Plans Need Improvement

The development of comprehensive remediation plans, which adequately identify the resources, remedies, and intermediate target dates are essential in order to bring an agency's financial management systems into substantial compliance. During our review, we found that the bureaus failed to provide either adequate or sufficient detail to support their remediation plans. Further, as of June 30, 2000, EOAF had not prepared a remediation plan as requested by the DCFO. As evidenced above, the Department's efforts at remedying FFMIA weaknesses are ineffective.

We performed a review of the remediation plans submitted during the period March 1999 through June 2000, for CFO audits performed during the period including FY 1997 through FY 1999. These plans were developed in response to the most recent CFO audits available. The audits identified systems at Customs, EOAF, FMS, and USSS as having material weaknesses in existence for a period 1 year or longer.

*A Report on the U.S. Customs Service's Fiscal Years 1999 and 1998 Financial Statements*², identified significant FFMIA related deficiencies in Customs core financial system, the Automated Commercial System. Although Customs prepared and submitted their remediation plan to the DCFO, the plan lacked specifics. For

² OIG-00-050, issued February 18, 2000

example, Customs did not identify specific task scheduling and implementation information necessary to evaluate or implement their remediation plan. Implementation of full software deployment of the general ledger is scheduled to occur 2 years after implementation of pilot software deployment. However, the specific steps associated with deployment are not time-phased in the plan, so subsequent evaluation of progress would be impossible. Also, Customs based a significant portion of planned resources for its corrective action plan on congressional approval of its Automated Commercial Environment information technology initiative. However, no alternative actions have been developed or specified in their remediation plan to address funding uncertainties related to this effort. These conditions continue to exist in the June 30, 2000 revised plan.

We also noted that the EOAF did not develop a remediation plan to resolve the deficiencies noted during past CFO audits. EOAF utilizes Customs' accounting systems, and with initial DCFO concurrence, did not prepare a remediation plan. While it is true that Customs does operate EOAF's accounting systems, FFMIA, and Office of Management and Budget Circular A-11 clearly indicates that a remediation plan is required where an agency's financial management system is not in substantial compliance with Federal financial management systems requirements, applicable federal accounting standards and the United States Government Standard General Ledger. In this specific case, EOAF may need to submit a plan that addresses steps to be taken if they are unable to rely on Customs. EOAF did not submit a plan during June 2000.

On January 20, 2000, FMS submitted their remediation plan to address long-standing computer related general controls weaknesses in its Government Online Accounting Link System (GOALS). As part of its remediation plan, FMS identified GOALS II as their new planned replacement system. However, no detailed plan or schedule had been developed to implement GOALS II. A detailed plan or schedule would be necessary in order to measure actual versus planned progress. In its June 2000 submission, FMS provided an implementation plan for GOALS II. GOALS II is scheduled to be implemented by September 2001.

A review of the USSS remediation plan disclosed similar remediation plan issues. The initial USSS remediation plan did not disclose comprehensive resource requirements or intermediate

milestones. For example, the remediation plan detailed the resource requirement as "staff hours required to enter data." Resources stated in such terms do not provide the comprehensive detail needed to associate a requirement with the work to be accomplished. Providing resource descriptions in this manner also fails to fully indicate how this need can be satisfied or to enable measurement of progress against intermediate or final completion dates. The June 2000 submission improved the valuation disclosure issue plan, but the submission did not specify a date certain for completion of the USSS property system issue.

Additional Departmental Guidance is Needed

The Department's program to oversee and implement FFMIA is not effective. The Department's oversight efforts were not evidenced during the review of remediation plans submitted prior to June 30, 2000. To date, the Department's oversight efforts do not provide for written feedback to the bureaus, detail actions needed if the bureau's remediation plans fail to correct the deficiencies, or include a quality assurance program. As a result, material weaknesses in the bureau's financial systems may go uncorrected.

The DCFO issued a memorandum on June 29, 1998, to the bureaus detailing the implementation of FFMIA within the Department. The bureaus were required to submit plans to correct financial management systems deficiencies in order to comply with FFMIA. Information to be included in the bureau's remediation plans were to be based on the corrective action plans described in the Inventory Tracking and Closure System for each bureau's FFMIA deficiencies. The bureau's remediation plans were due to the Department by August 15, 1998.

In response to this memorandum, the bureaus began submitting their plans to the Department beginning in August 1998. Based upon discussions with the Accounting and Inventory Control Section within the Office of the DCFO, we were told that the Department performed an initial review of the bureau's plans and provided feedback. However, we were unable to determine the extent of feedback provided as no documentation of the reviews was maintained at the Department.

In response to the Department's request, Customs submitted a revision to their plan on September 15, 1998. In addition, FMS submitted their plan revisions on October 2, 1998, which the bureau indicated had addressed the questions and comments provided by the DCFO. Subsequent to that date, FMS provided additional updates to its corrective action plan, the latest of which was received on January 20, 2000. The USSS provided its first plan in March 1999, with a revision in January 2000. Although the Department provided comments to the bureaus (which could not be produced upon request), our review of the revised remediation plans noted that the plans did not adequately provide for the resources, remedies and target dates necessary to bring the agency's financial management systems into compliance.

For example, the revised plans of USSS focused on plan changes, rather than the work completed as projected in their prior remediation plan. As a result, we were unable to analyze the progress made by USSS to implement their plan. We were unable to compare the current status of non-compliances with specific steps called for in the previous remediation plan. Further, the March 1999 USSS remediation plan dealing with the seized asset system has as its resource requirement "The amount of resources needed to complete the remediation of this weakness will be determined during the April planning sessions." The January 2000 USSS update on the same topic states "Staff hours will be required for programming and validation of data." Resource requirements were not quantified, and we could not track progress based on this report.

We are unaware of any quality assurance efforts on the part of the Department. Information furnished to the Department is at the summary level and, therefore, the Department is unable to verify accomplishment of reported interim target dates reported by the bureaus. Without supporting documentation, the Department is unable to evaluate the adequacy of bureau plans. As a result of a lack of a quality assurance program, the information reported to the DCFO concerning remediation progress cannot be validated.

On a quarterly basis, the CFO issues to the Deputy Secretary its Management Control Program Quarterly Report (MCPQR). This report summarizes identified management control weaknesses within the Department. A review of the June 30, 1999, and September 30, 1999, MCPQR reports indicated that the FFMIA

plans submitted developed by the bureaus were incomplete. In the June 1999 quarterly report, the CFO encouraged bureau executives to ensure that "the remediation plans are completed satisfactorily and submitted to the Office of Accounting and Internal Control by September 30, 1999." Further, on January 31, 2000, the DCFO issued a letter to the Treasury CFO council entitled "FFMIA non-compliance at Treasury as of January 31, 2000 and Linking to OMB/JFMIP Requirements." The letter concludes "In the late March/April 2000 timeframe, my Office will be arranging a series of meetings with the seven Departmental bureaus and/or entities, which must implement FFMIA Remediation Plans..." The DCFO's memorandum also states that the Department's goal is to have FFMIA compliant remediation plans in place by July 1, 2000. While the Department has taken these steps and indicated prior plan deficiencies, it has not provided specific guidance for each bureau's plan to effect improvement.

The bureaus, with the exception of EOAF, submitted their revised remediation plans to the DCFO by June 30, 2000. The Department performed a review of each plan. The Department's analysis of weaknesses in the revised plans is substantially the same as those we noted in our reviews of prior plans. As a result, the bureau's plans have significant remaining weaknesses. The Department, in their review of Custom's plans, noted that a key contract has not been issued and questioned the impact of this contracting matter on the completion of the other remedies necessary to correct the accounts receivable weakness. In another instance the Department noted that the USSS did not provide a timeframe for the complete review and approval of a re-organization of the accounting branch to correct the deficiency noted in their property system. As it stands, the remediation plan is open ended. Further, the Department plans to provide the bureaus with written comments as a result of its review of the updated plans. The Department stated that comments to the plans would be prepared and forwarded in due course (i.e., by the end of FY 2000). The conditions involving the quality of bureau remediation plans and Departmental oversight continue despite the submission of the revised remediation plans.

We further inquired if the Department intended to monitor implementation of the remediation plans through a quality assurance program. The Department acknowledged that the plans did not contain sufficient supporting detail to properly evaluate the

plans and effectively monitor their implementation. The Department envisioned that Inspectors General from both Treasury Inspector General for Tax Administration and Treasury Inspector General would perform this task.

The development and implementation of remediation plans is critical to the Department's overall financial management objectives. Failure to develop and implement adequate remediation plans results in the Departments inability to remedy its FFMIA related financial system deficiencies; the continued reporting of material weaknesses in bureaus' financial statements; and the continued use of non-FFMIA compliant accounting procedures which do not facilitate accurate financial results of the Federal Government.

Recommendation:

To improve the oversight of FFMIA remediation plan development and implementation, the Treasury CFO should: 1) ensure remediation plans are prepared and viable; 2) ensure that plans contain comprehensive and executable resources, remedies and intermediate target dates; 3) review plans and provide written feedback; 4) require quarterly progress reporting; and 5) perform quality assurance to ensure that planned progress is being made.

Management Response:

The Department agreed with our recommendation, stated that a corrective action plan will be developed, and discussed the need for additional audit work.

OIG Comment

The OIG agrees that the steps to be taken by the Department will correct the noted weaknesses in the bureau's plans. The OIG also agrees that additional work is required to determine the validity of systems solutions in remediation plans developed by the bureaus.

Management Response

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

SEP 27 2001

MEMORANDUM FOR DENNIS SCHINDEL
ASSISTANT INSPECTOR GENERAL FOR AUDITFROM: Lisa Ross *Lisa Ross*
Acting Assistant Secretary for Management
and Chief Financial Officer

SUBJECT: Draft Audit Report – Implementation of FFMIA

This memorandum provides management's response to the subject draft report, which was transmitted to me with your memorandum dated August 23, 2000. We appreciate your staff's efforts on this audit and, while the sole recommendation to further improve oversight is valid, it adds limited value to the substantive discussions we are having with the respective bureaus on their remediation plans. Specifically, due to our previous oversight efforts, the affected bureaus submitted revised remediation plans in June 2000, based on our feedback regarding their initial submissions. As you indicated in your report, significant progress has already been made toward improving the quality of these plans, though selected deficiencies remain. That said, our detailed corrective action plans for this audit will be provided electronically, after the final report is entered in the Inventory Tracking and Closure System.

While "Phase I" of your FFMIA audit focused mainly on the effectiveness of Departmental oversight of the bureaus, our expectations were for your assistance in reviewing the validity of the systems solutions in the revised remediation plans developed by the bureaus. Going forward, we believe it would be beneficial for our staffs to meet prior to the start of "Phase II" of your FFMIA audit to discuss its objectives and other matters addressed in your Phase I report. Our hope is that, capitalizing on our collective, albeit limited resources, we can provide the bureaus with specific, constructive critiques of their remediation plans that will produce the improved systems applications we mutually desire.

We look forward to working with your office in order to bring about Departmentwide compliance with FFMIA. If you have questions, please call Jim Lingebach on (202) 622-0818, or have your staff contact David Epstein on (202) 622-0440 or Jim Angel on (202) 622-4154.

List of Abbreviations

CFO	Chief Financial Officer
Customs	United States Customs Service
DCFO	Deputy Chief Financial Officer
Department	Department of the Treasury
EOAF	Executive Office of Asset Forfeiture
FFMIA	Federal Financial Management Improvement Act
FMS	Financial Management Service
FY	Fiscal Year
GOALS	Government Online Accounting Link System
MCPQR	Management Control Program Quarterly Report
Mint	United States Mint
OIG	Office of Inspector General
USSS	United States Secret Service

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Report Distribution

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